

Department of Transportation:

**Further Improvements Can Be Made
in the Management of Properties Along
the State Route 710 Right-of-Way**

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November 13, 1996

95111

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the Bureau of State Audits presents its audit report concerning the Department of Transportation's (department) management of properties along the State Route 710 right-of-way. This report concludes that the department's District 7 (district) office could further improve the management of its properties along the corridor of the proposed State Route 710 extension project. Specifically, the district allowed many of its properties to fall into disrepair and is now spending significant amounts of money to repair and rehabilitate its historic properties along the corridor. We agree that the district must repair these properties to eliminate health and safety hazards and to preserve their historical qualities. However, the district plans to "fully rehabilitate" more than 100 of these properties. Based on the more than \$2 million that the department will incur to fully rehabilitate the first 4, the costs of restorations will run into the tens of millions of dollars. We therefore question the prudence of this approach, especially since the State's investment will not be recovered because it is unlikely that these properties will be sold at fair market value.

In addition, although the department has made changes to improve the district's property management unit, the district could make further improvements by controlling those instances in which tenants pay for repairs to department properties and then offset the cost of these repairs against their rent payments. The district's property management unit also needs to improve its handling of delinquent accounts, and charge market rents for its properties or document the reasons for the lower rates.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Kurt Sjoberg", written in a cursive style.

KURT R. SJOBERG
State Auditor

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Summary




Audit Highlights . . .

The Department of Transportation, District 7, is spending more than necessary to manage and maintain its right-of-way properties along the proposed State Route 710 extension. Specifically:

- ✓ It will spend over \$2 million to rehabilitate four historic dwellings; and*
- ✓ After repair and rehabilitation, many of these nonhistoric and historic properties will be sold for far below market value, razed, or relocated.*

The district can realize significant savings by reevaluating its interpretation of laws regarding the repair levels necessary to rehabilitate its properties.

Finally, despite some changes, the district needs to further improve the management of its rental properties.



Results in Brief

The Property Management Branch (branch) within the California Department of Transportation (department) is responsible for managing property held for future transportation projects. The branch is also responsible for disposing of property no longer needed for a proposed project, performing annual property inspections, marketing rentable properties, collecting rents, and arranging for property maintenance.

Our review focused on the department's District 7's (district) management of 514 dwelling units that it acquired, in some cases more than 40 years ago, to extend State Route 710 north farther into the city of Los Angeles and into the cities of South Pasadena and Pasadena. Some of these dwellings are eligible for inclusion in the National Register of Historic Places. The district estimates that it will continue to manage those properties along the corridor of the proposed State Route 710 extension project (extension project) for at least ten more years because of delays in obtaining federal approval for the extension project.

After allowing many of its properties along the extension project right-of-way to fall into disrepair, the district began improving the general appearance of them. To rehabilitate and repair 51 historic properties that were identified at the time, the district received \$3.2 million over two fiscal years, beginning in 1994-95. However, the decisions that the department has made concerning these historic properties and the extent to which they will be rehabilitated will result in the district spending more on these properties than appears necessary. The district now manages 104 historic dwelling units along the corridor of the proposed extension project. Given this fact, coupled with the high cost of fully rehabilitating historic structures, we question the prudence of continuing to do full rehabilitations on the district's historic properties. Incurring the high cost of fully rehabilitating these properties, when ultimately these historic properties will be sold, does not seem prudent. The department believes that it must fully rehabilitate its historic properties to

comply with the state and federal laws regarding historic properties. However, we believe that the department is allowed some latitude in its interpretation of those laws.

Furthermore, after performing the repairs to maintain and preserve the historic qualities of its properties, the district may be required to sell some of these properties at less than fair market value. The California Government Code, Section 54237, which governs the sale of excess property, requires the district to offer property it no longer needs for a proposed construction project to current tenants at affordable prices if the tenant has low or moderate income and meets other requirements set forth in the law. Because the district has agreed to preserve the historic districts along the extension project right-of-way, it plans to relocate rather than raze the majority of the historic dwellings, and therefore these dwellings ultimately will become excess property and offered for sale.

Although the department has made changes to improve the district's property management unit, the district could make further improvements. For example:

- The district does not always control the tenants' use of rental offsets. Rental offsets are when tenants are allowed to perform limited repair work on property they occupy at their initial expense, which are credited against their rent.
- The district does not follow its policies and procedures for handling tenants with delinquent accounts.
- Finally, the district is not always charging market rents as it should, and it does not always document the reason it charges tenants rental rates that are lower than market.

Recommendations

The district should continue its effort to complete the repair work on properties along the extension project right-of-way.

The department should reassess its interpretation of the laws requiring the district to preserve and maintain historical resources and also reassess the level of repair work it plans to perform on its historic properties.

The department should work with the Legislature to clarify the Legislature's position on the historic properties. Specifically, the department should propose legislation to change the law

governing the department's sale of excess right-of-way property to exempt all residential historic properties from the law's provisions so that it can sell these properties for their full market value.

The department should continue its efforts to improve its property management services by ensuring that the district is fully and effectively implementing all of its policies and procedures.

Agency Comments

The department agrees with the conclusions and recommendations in our report except for one point. Specifically, the department believes that circumstances regarding the proposed extension project precluded it from exercising latitude in its interpretation of the laws requiring the maintenance and rehabilitation of historic properties. Because of these circumstances, the department said that its interpretation of the law best serves the public's interest by ensuring maximum federal participation in the proposed extension project.

Introduction

The California Department of Transportation (department) is responsible for constructing, operating, administering, and maintaining the State's comprehensive transportation system. The department has 12 districts, all of which maintain right-of-way offices, that are responsible for acquiring and appraising land needed for constructing transportation facilities, relocating families and businesses affected by proposed highway construction, managing and disposing of property under the department's control, and clearing land before construction begins.

In the initial phases of a proposed highway project, the department conducts detailed studies and submits a recommendation to the California Transportation Commission (CTC) on whether to approve the proposed project. Once the CTC authorizes the department to proceed and adopts a highway route, the department enters into a freeway agreement with the appropriate local city and county officials. The freeway agreement authorizes the department to proceed with the construction project. When this occurs, the department may begin acquiring properties located in the path of the proposed highway. Depending on the location of the proposed highway and the potential social, economic, and environmental impacts of the highway project, the appropriate right-of-way office generally begins acquiring properties 18 to 36 months before the planned construction date.

However, by using either its "hardship" or "protection" acquisition processes, the department may acquire property years before project construction begins. Advance acquisitions generally occur on an adopted highway route prior to the signing of a freeway agreement. The California Streets and Highways Code, Section 100.21, prohibits property acquisition prior to the signing of a freeway agreement except for hardship or protection reasons. The department generally acquires property for hardship reasons when a proposed transportation facility worsens personal circumstances of a property owner in the right-of-way and the owner cannot resolve issues unless the

State purchases the property. When substantial building activity or appreciation in value of vacant land is both likely and imminent, the department acquires property in advance to protect against paying more for the land.

Because of delays in project approval or construction start-up, the department sometimes cannot avoid acquiring more property than it needs for a particular transportation project or holding property for long periods of time. In such cases, the department's Property Management Branch (branch) is responsible for keeping an inventory of these State-owned properties, disposing of excess properties, performing annual property inspections, marketing rentable properties, collecting rents, and arranging for property maintenance.

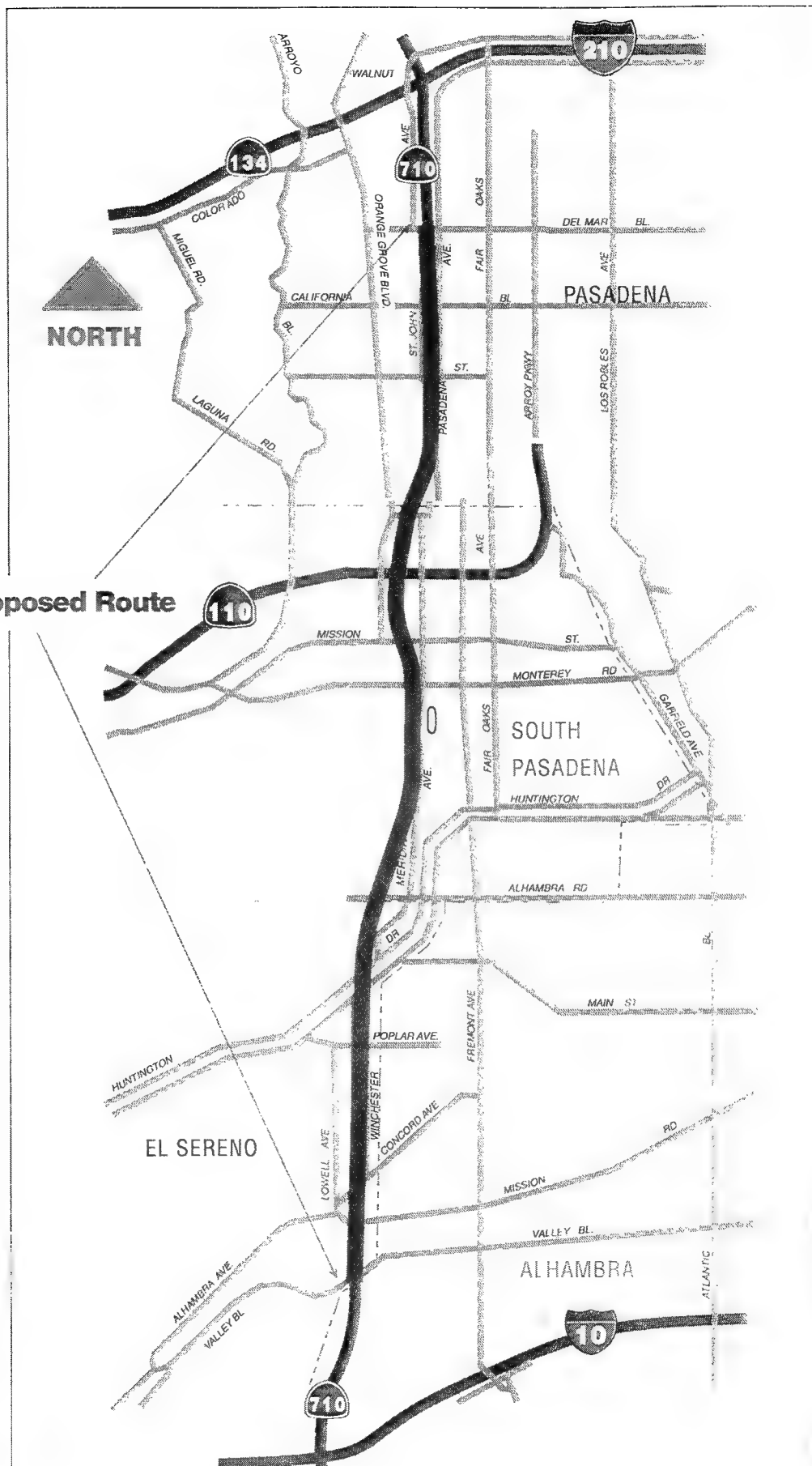
In Los Angeles and Ventura counties, the department's District 7 office (district) oversees the department's transportation and property management concerns. The district's right-of-way office manages all property in these counties that the State is holding for future transportation projects.

The State Route 710 Extension Project

For decades the department has proposed the State Route 710 extension project (extension project) to close an approximate six-mile gap in the freeway just north of State Route 10 in Los Angeles to State Route 210 in Pasadena. Studies show that this extension project will ease the traffic flow in the affected cities. The map on page 3 shows that this extension project affects the cities of Los Angeles, Alhambra, South Pasadena, and Pasadena. In 1953, the California Highway Commission, the predecessor to the CTC, adopted the location for the extension project, and the department began using both standard and advance acquisition procedures to acquire properties for the right-of-way. During the 20-year period that followed, the department acquired more than 400 properties and was involved in the long-term management of these properties.

The proposed extension project has engendered considerable controversy, evoking strong opposition and equally strong support. In early 1973, the City of South Pasadena prevailed in a civil lawsuit filed in the United States District Court that prohibited the department from proceeding with the completion of the extension project until the department complied with the National Environmental Policy Act and the California Environmental Quality Act. Essentially, these acts required the

Current Proposed Route



department to complete environmental studies documenting the adverse environmental impacts of the freeway on the surrounding communities.

Subsequent to the 1973 civil lawsuit, the proposed extension project was further delayed while the department completed the environmental studies required by the federal and state environmental acts in an effort to obtain federal approval. Specifically, the department completed four Draft Environmental Impact Statements (1975, 1976, 1983, and 1986), a Final Environmental Impact Report in 1984, and a Final Environmental Impact Statement (FEIS) in 1992 that the Federal Highway Administration (FHWA) approved provisionally. After accepting an FEIS, the FHWA generally notifies the department that it will support a highway project by approving a Record of Decision document. The FHWA has not required the department to complete additional Environmental Impact Statements since 1992. However, other events have delayed the signing of the Record of Decision by the FHWA. Appendix A contains a more detailed discussion of the events that have affected the proposed extension project.

Because of the more-than-40-year delay in project commencement and the controversy still surrounding the extension project, department officials still do not know when the FHWA will approve the extension project for construction. However, department officials speculate that once federal approval is granted, groups opposing the extension project will file another lawsuit, causing further postponement of construction. The department estimates that, under the best of circumstances, it will need at least ten years to advance the project to the construction phase once the FHWA signs the Record of Decision. Therefore, the department is generally making long-term decisions about the management of its properties along the route.

Composition of Properties Along the Extension Project Right-of-Way

As illustrated in Table 1, the district now manages 498 parcels of land it acquired for the extension project. In addition to considering the length of time that the department will own the properties, the district also has to consider the types of improvements on each parcel. The parcels include a total of 514 dwelling units, consisting of single family residences (SFR), multi-residential units (more than one dwelling unit on a parcel), or commercial property, while others are vacant land. The district also needs to consider the historic and occupancy

status of its properties when it makes property management decisions. Finally, in overseeing these properties, the district would have to consider whether the department has certified these properties as excess because they are no longer in the proposed right-of-way. The district must ultimately sell properties that the department certifies as excess.

Table 1

***Inventory of Property Acquired
for the Extension Project***

	Parcels	Dwelling Units		Total
		Historic	Nonhistoric	
SFR	381	83	298	381
Multi-Residential	41	21	112	133
Commercial	20	N/A	N/A	N/A
Vacant land	56	N/A	N/A	N/A
Total	498	104	410	514

The department owns 104 historic dwelling units along the extension project right-of-way, approximately one-fifth of its inventory of 514 dwelling units. The California Public Resources Code requires the department to preserve the historic quality of the historic dwellings it owns. However, the district has allowed many of the 104 historic dwellings to fall into disrepair. As a result, the district must spend a substantial amount of money to rehabilitate these properties. Although the district has hired outside contractors to perform repair work on many of the properties, much more work remains.

As a result of a realignment of the extension project route, the department has determined that 76 of its 514 dwelling units and 6 vacant parcels are excess. The district is currently processing for sale the 76 dwelling units, which are located on 56 parcels. Table 2 profiles the types of excess properties owned by the department and their status as historic or nonhistoric.

Table 2***Inventory of Excess Properties Near
the Extension Project***

	Parcels	Dwelling Units		Total
		Historic	Nonhistoric	
SFR	51	17	34	51
Multi-Residential	5	1	24	25
Commercial	0	N/A	N/A	N/A
Vacant land	6	N/A	N/A	N/A
Total	62	18	58	76

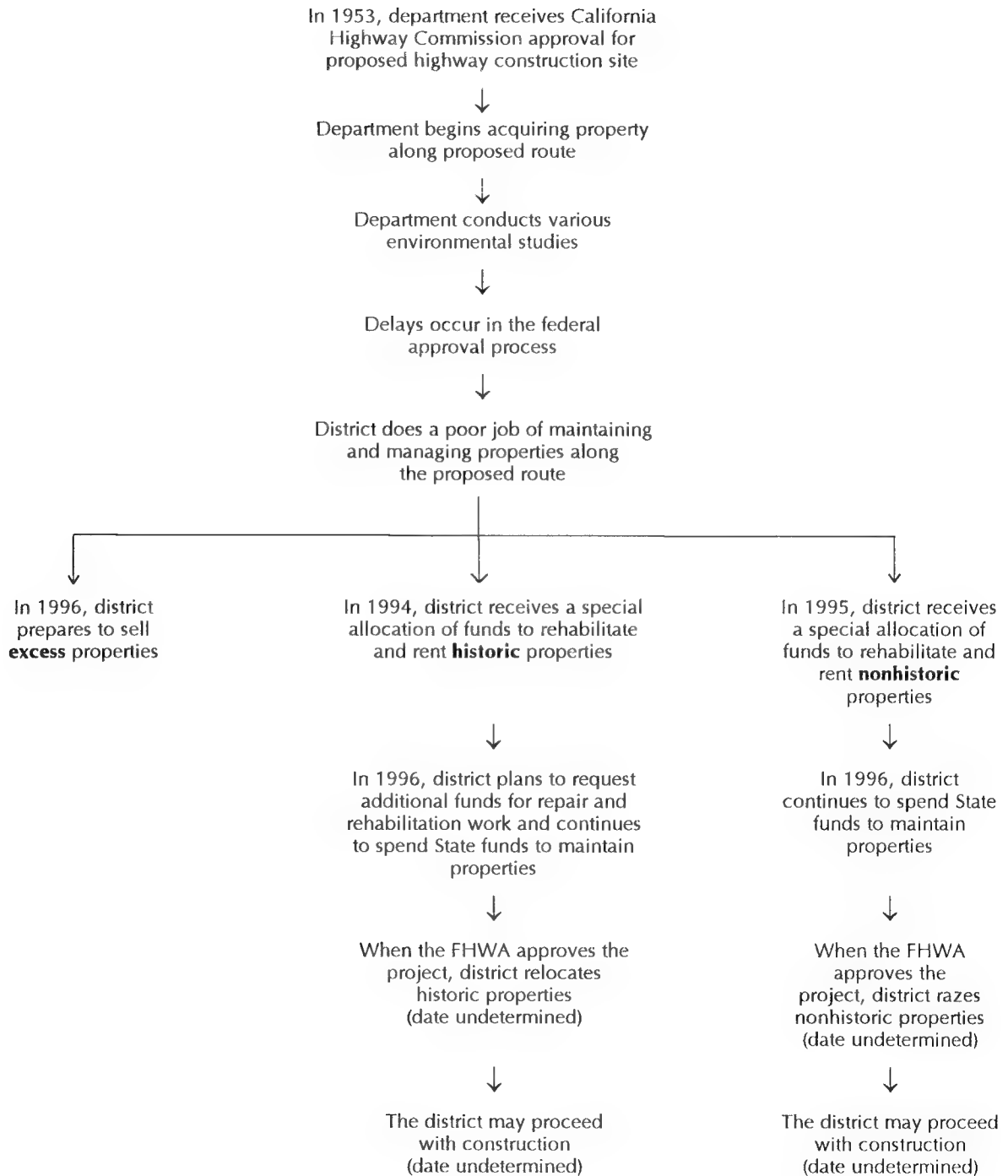
The California Government Code requires the department to offer these properties to the current tenants. Under the Government Code, these tenants may qualify to purchase excess properties at less than fair market value. For those properties, the department nonetheless will have to make repairs that may be required by lenders before the final sale. Such repairs may involve upgrading a property's faulty plumbing or electrical system or replacing a leaking roof or ceiling.

The department allocated the district an average of \$2.6 million each fiscal year for the past five years through the department's general maintenance budgeting process to maintain all of its 1,751 properties, including the 514 dwelling units along the extension project right-of-way. In addition, the district received special allocations of capital outlay funds totaling approximately \$5.9 million during fiscal years 1994-95 and 1995-96 to repair and rehabilitate the properties along the extension project right-of-way. However, the district estimates that it needs an additional \$16 million to perform repairs and preliminary rehabilitation work on its historic properties.

Figure 1 on page 8 is a flowchart that shows the department's basic process for acquiring property along the proposed extension project route, the delays in obtaining federal approval for the project, and property management and disposal issues.

Figure 1

Overview of the Department's Process for Acquisition and Management of Properties Along the Corridor of the Proposed State Route 710 Extension Project, 1953-1996



Scope and Methodology

The Joint Legislative Audit Committee requested that the Bureau of State Audits conduct an audit of the department's management of right-of-way properties along the proposed extension project in Los Angeles County. The management of these properties is the responsibility of the department's Los Angeles district office (District 7).

To accomplish our audit, we evaluated the district's funding for maintaining its right-of-way properties, the district's efforts for rehabilitating and repairing its historic and nonhistoric properties, and the district's procedures for determining the rents to be charged to tenants of district properties. In addition, we reviewed the district's steps for collecting rents promptly and its methods for selling properties that the department has certified as excess.

To understand the responsibilities involved in the department's management of its properties, we reviewed relevant laws, rules, and regulations. We also examined the department's policies and procedures manual and interviewed staff.

Our examination of the district's funding for the maintenance of its right-of-way properties included analyzing the department's general maintenance allocation process and records of the funds allocated to the district over the past five fiscal years. To evaluate the district's repair and rehabilitation efforts for its properties, we validated the district's inventory of properties along the corridor of the proposed extension project, and then reviewed the district's records identifying the repair and rehabilitation accomplishments. In addition, we reviewed the district's plans, including cost estimates and priority lists, for future rehabilitation of its historic properties.

To determine whether the district is complying with the relevant laws, rules, and regulations on setting rental rates, collecting rents, and handling delinquent tenants, we examined a sample of tenant accounts and supporting documentation.

Finally, we reviewed the laws, rules, and regulations for disposing of property no longer needed for construction projects, evaluated the status of the district's sale of these properties, and determined whether the district is complying with the requirements.

Chapter 1

The Department's Interpretation of Laws Related to Property Maintenance Is Not Always in the Best Interest of the State

Chapter Summary

District 7 (district) of the California Department of Transportation (department) allowed to fall into disrepair its properties in the right-of-way for the proposed State Route 710 extension project (extension project). The department has owned these properties for much longer than it ever intended. This factor, coupled with the district's limited allocation of general maintenance funds, has contributed to the poor condition of these properties. Many of these properties became unsafe and therefore have remained unoccupied for a long time.

In response to public complaints about the poor condition of its properties along the extension project right-of-way, the district has taken steps to improve its property management. These steps include improving the general appearance of its properties along the extension project right-of-way and repairing and rehabilitating the properties to prepare them for occupancy. However, the department's decisions concerning the extent to which historic properties are to be rehabilitated may not be in the best interest of the State.

When it made the commitment to the community to rehabilitate the historic homes, the district grossly understated the initial cost estimates. However, now that the district has developed more accurate cost estimates for rehabilitating these properties, it has revised its plan and intends to rehabilitate only four historic homes at a total cost of over \$2 million. For the remaining historic properties, the district has decided to defer full rehabilitation until construction on the extension project is complete. However, the district is requesting \$16 million in funds to make necessary health and safety repairs which will also help preserve these properties. Considering the high costs of fully rehabilitating its historic homes, coupled with the fact that the district now owns 104 historic dwellings, we question whether it is in the State's best interest for the district to continue doing full rehabilitations on its remaining historic properties. Also, the department believes that there is a strong

possibility that additional homes and districts could become eligible for inclusion in the National Registry of Historic Places which would increase even further the costs associated with historic rehabilitation. Added to our concern is the reality that after fully rehabilitating a historic property, the property ultimately could be demolished or, more likely, sold.

The district is in the process of disposing of 62 parcels it no longer needs for the extension project. In accordance with the state law governing the sale of excess property, many of these excess properties will be sold at less than fair market value to tenants meeting the low- or moderate-income requirement. Before the district can sell these properties, however, it must pay for certain repairs required by the buyers' financing companies.


In the future, the district will determine that additional properties are excess. By that time, many of the historic properties will have been rehabilitated. However, current state law governing the sale of excess property will prohibit the district from recovering the costs of the expensive repairs that it has performed.

Background


Contrary to law, the district allowed many of its State Route 710 right-of-way properties to fall into disrepair.

Although California statutes require property owners to maintain all of their properties in a condition suitable for occupancy, the district allowed many of its properties along the State Route 710 corridor to fall into disrepair. Specifically, the California Health and Safety Code, Section 17980.6, requires property owners to maintain their property in a condition that does not endanger the health and safety of residents. In addition, the California Public Resources Code, Section 5024(a), requires the district to maintain and preserve its historic properties. However, some of the extension project properties, including several historic structures, are in such poor condition that they are uninhabitable and have remained unoccupied for a long time. According to local newspaper reports, the substandard condition of these properties attracts vagrants and crime to the neighborhoods in which they are located. Consequently, residents as well as city and county representatives voiced their displeasure with the district about the poor condition of these properties. In April 1995, the department took action to start correcting these problems. Chapter 2 describes many of the changes the department has made.

Until June 30, 1995, the last day of fiscal year 1994-95, the district's annual budget for maintaining all of its properties averaged approximately \$2.6 million. With an aging inventory of 1,751 properties under its jurisdiction, the district reported that it did not have sufficient funding to maintain its properties properly. However, during fiscal year 1995-96, the district took steps to improve the general appearance of the extension project properties. The senior right-of-way agent (senior agent) assigned to manage the properties stated that the district used its general maintenance funds to manicure over 300 trees, paint over 100 exteriors and 106 interiors, replace 53 roofs, and repair 54 roofs. The district also reported that it placed 106 carpet and/or vinyl flooring orders, replaced 9 mainline sewers, and installed 19 heater units.



To repair and rehabilitate the State Route 710 properties, the district received \$5.9 million in capital outlay funds over a two-year period.




In addition, the district improved the general appearance of its extension project properties with capital outlay funds totaling approximately \$5.9 million received over two fiscal years beginning in 1994-95. Specifically allocated for the repair and rehabilitation of the extension project properties, these funds were more than double what the district had received through the general maintenance allocation process in previous years. At fiscal year-end 1995-96, the district reportedly had spent approximately \$769,000 for nonhistoric property rehabilitation and approximately \$1,080,000 for preliminary repair work on some of its historic properties. According to the district's property management chief, before receiving these capital outlay funds, the district had received only its annual general maintenance allocation; it had never received capital outlay or any other special allocation for property maintenance or rehabilitation.

***To Fulfill the Department's
Interpretation of the Law,
the District Is Making Costly
Repairs to Its Historic Properties***


The district allowed to deteriorate many of its 104 historic properties that are on 98 parcels of land along the extension project corridor. The district is now attempting to fulfill its responsibility to maintain and preserve the historic qualities of these properties. To comply with the California Public Resources Code, Section 5024(a), the district applied for and received over two fiscal years beginning in 1994-95, \$3.2 million in capital outlay funds from the California Transportation Commission (CTC) to repair and rehabilitate the district's 51 historic properties. The department interpreted

the California Public Resources Code provisions to require the district to fully rehabilitate its historic properties. In our view, the department has some latitude in its interpretation of the California Public Resources Code and is allowed to exercise judgment as to the extent of its rehabilitations of historic properties.

The initial cost estimates for rehabilitating these historic homes proved to be grossly understated. As a result, the district revised its original plan and now plans to rehabilitate only four historic homes at a total cost of over \$2 million. For the remaining historic properties, the district's plan is to postpone full rehabilitation until construction on the extension project is complete. However, the district is requesting \$16 million in funds to make necessary health and safety repairs which will also help preserve these properties. In addition, the department believes that there is a strong possibility that additional homes and districts will become eligible for inclusion in the National Registry of Historic Places which would increase even further the costs associated with historic rehabilitation.




The district may be spending more money and doing more work than is necessary to rehabilitate historic properties that will ultimately become excess.




Considering the high costs of full historic rehabilitation, it may not be in the best interest of the State for the district to continue doing full rehabilitations of its remaining historic properties. Added to our concern is the reality that after fully rehabilitating a historic property, the property becomes excess, which means it eventually will be sold. For example, one of the first four homes that is being fully rehabilitated will become excess if the federal government approves the current route that has been proposed.

After the district received information from the Division of the State Architect and contracted consultants on the costs associated with preserving the historic qualities of these homes, it altered its original plan. Because it had made a commitment to the community, the district decided to use the remaining funds from the \$3.2 million to rehabilitate thoroughly as many of the historic homes as possible rather than immediately rehabilitate all 51 homes. At this point, the district identified 13 poorly maintained and unoccupied historic homes and prioritized them for full rehabilitation. The district also identified and gave high priority to one occupied historic home. After taking into consideration the condition and location of these 14 homes, as well as the limited funds that remained, the district determined that it could rehabilitate fully only the four homes that had the highest priority. The district decided to perform only health and safety repairs and to address certain historic preservation issues on the 10 remaining homes from the priority list and on any other historic homes that were in disrepair. In the meantime, the number of homes along the

corridor of the proposed extension project that were eligible for inclusion in the National Register of Historic Places had substantially increased from the initial 51 to a total of 104 homes. The district has agreed to minimize the impact the construction of the extension project will have on historic districts along the right-of-way by transferring or relocating rather than demolishing the majority of its historic dwellings.




Spending an average of \$502,000 each to rehabilitate historic dwellings that will ultimately be sold for less than market value is not in the best interest of the State.




We believe that the department has some flexibility on the extent to which it must preserve and maintain historic properties because the provisions of the California Public Resources Code do not specify what constitutes preservation and maintenance of historic properties. Also, the State Historic Preservation Officer has delegated authority to the department for making decisions regarding the evaluation, rehabilitation, and maintenance of its historic buildings. Even if the department adheres to federal standards for rehabilitating historic properties, it still has flexibility. According to the United States Secretary of the Interior's Standard for Rehabilitation, "rehabilitation" is "the process of returning a property to a state of utility, through repair or alteration, which makes possible an efficient contemporary use while preserving those portions and features of the property which are significant to its historic, architectural, and cultural values." The district already has exercised some latitude in deciding to perform less costly repairs on some of its historic properties, rather than fully rehabilitate them. If the district exercised the same latitude with regard to the four historic properties it plans to fully rehabilitate, it could have decided to perform only necessary repairs to address health and safety problems on these properties. This approach appears particularly appropriate because one of the four homes may be declared excess soon. Had the district done this it would not be spending an average of \$502,000 per dwelling in rehabilitation costs.

Spending such sums to rehabilitate properties, when ultimately all of these historic properties will be sold, appears imprudent. Sections 54235 through 54238 of the California Government Code require the district to sell excess right-of-way properties to current tenants who have low or moderate income and who also meet other requirements set forth in the law. In other words, the district will not be able to sell all of its excess historic properties at fair market value. For example, the district estimates that it will spend approximately \$84,000 making required repairs on a historic home that no longer lies in the extension project right-of-way. Under the California Government Code sections, the district determined that the current tenant qualifies to purchase this home at an affordable price. The district calculated a selling price based on the tenant's income, expenses, and other market factors as




Although the market value is \$440,000, one tenant will pay about \$95,000 for one of the district's excess historic dwellings.




required. The calculated selling price totaled about \$95,000 for this home, even though the property has an appraised value of approximately \$440,000. The district purchased the home in 1972 for approximately \$45,000. Therefore, the district will have invested approximately \$129,000 plus interest and will have received \$95,000 for a home appraised at \$440,000.

To address those circumstances in which the district will be required to sell historic properties for less than fair market value, the department's deputy director of planning and a branch chief recently began discussing a proposal to the Legislature that would modify the law dealing with the sale of excess right-of-way properties by exempting all residential historic properties from Sections 54235 through 54238 of the California Government Code.

The District Is Meeting Requirements To Rehabilitate Its Nonhistoric Properties



The district estimates that it will need to maintain and manage the State Route 710 properties for at least ten more years.



Many of the district's nonhistoric properties have also fallen into a condition of disrepair. However, the district is now meeting its requirements to maintain the structures in a condition suitable for occupancy. The California Health and Safety Code, Section 17980.6(a), requires property owners to maintain the properties in a condition that does not endanger the health and safety of residents. In addition, the department's policies require the district to maintain the properties in a condition suitable for occupancy. The district estimates that it will need to maintain its properties for at least ten more years because, even if the federal government approves the proposed extension project, the district would need at least that long before advancing to the construction phase.


The district identified 31 nonhistoric homes that merited rehabilitation work, and nearly all were unoccupied. In fiscal year 1995-96, the district received \$2.7 million of the \$5.9 million capital outlay allocation from the CTC for the rehabilitation of these nonhistoric homes. As of September 1996, the district had completed the full rehabilitation of 14 of the 31 homes between September 1995 and July 1996, at a cost ranging from \$26,000 to \$90,000 per home. The rehabilitation work included such efforts as painting, repairing roofs and stucco, replacing cabinets and heater units, and repairing plumbing systems. One of the remaining 17 homes originally identified for rehabilitation is in the initial stages of the process, and the district plans to complete the rehabilitation of the other 16 homes by March 1997.

Although the costs to repair and rehabilitate these nonhistoric homes are less than those for historic properties, the district still must spend a significant amount of money repairing property that ultimately it will sell or raze. However, the law requires the district to make the repairs. If the district had received sufficient funds to maintain the properties over the years, it might not currently face these costly repair projects.


The District Is Repairing Excess Properties It Plans To Sell

Because the CTC adopted an alternative route for the extension project in 1994, the district no longer needs 62 of the parcels acquired for the original right-of-way. The district is in the process of selling those properties. Nonetheless, it must make certain repairs on all of these homes that it is required to sell to low- or moderate-income tenants at less than the fair market value. The law does not require the district to make repairs on those excess properties that it can sell at fair market value.

The California Streets and Highway Code, Section 118.6, states that once properties lying outside the right-of-way are certified as excess, the district must attempt to sell them within a year. The district certified these 62 parcels as excess in November 1995 and January 1996. Six of the parcels are vacant lots, and the remaining 56 contain 76 dwelling units that the district is offering for sale. The 76 dwelling units consist of 51 single family residences (SFRs), of which 17 are historic, and 5 multi-residential units (25 dwelling units) that the district plans to sell by December 1996.



Under existing laws, the district must sell many of its excess properties for far below their market value.



To dispose of the 56 parcels, the district is following the requirements of the California Government Code, Sections 54235 to 54238, which allow the current tenants of these properties who meet the low- or moderate-income requirements to purchase the properties for affordable prices that are below fair market value. The provisions of the code require the department to make certain repairs required by the lender on the properties before selling them to tenants who have low or moderate income. These repairs may involve upgrading properties' faulty plumbing or electrical systems, replacing leaking roofs, and fixing damaged ceilings. For example, the district estimates that it will spend approximately \$16,000 making the necessary repairs to one of its excess homes. The current tenant will be able to purchase this home for less than the fair market value because the district determined that the tenant meets the low- to moderate-income requirement set forth in the Government Code. Specifically, the tenant will pay

about \$118,000 for this home, although fair market value is \$187,000. The proceeds from the sale of this and the other excess properties will be used to defray the costs of repairing homes and to cover the district's selling costs. According to the chief of the property management unit, any remaining funds will flow into the department's State Highway Account.

The district is in the process of determining which tenants qualify to purchase these excess properties and, as of October 1996, the district reported that 25 tenants were eligible. Under the provisions of the California Government Code, a property is first offered to former owners who are current tenants, then to low- or moderate-income tenants who have resided in the house for at least two years, thirdly to tenants whose income does not exceed 150 percent of the area median income and who are at least five-year residents, and lastly to public and private housing entities that will provide low- or moderate-income housing. The California Government Code prohibits the sale of these properties for less than the acquisition price or more than the fair market value. Because the department acquired these properties many years ago and the value of real property has increased over the years, the acquisition price on most of these properties is considerably less than the current fair market value.

The excess properties are in varying stages of the sales process, and the department had not sold any as of October 1996. In general, the sales process for the SFRs includes income verification for those buyers who have low or moderate income, during which property management staff evaluate the tenant's ability to qualify for affordable purchase; offer letter (when income has been verified and a letter is sent to the tenant listing the selling price calculated by the district); and escrow, which follows the tenant's decision to purchase the home and includes the costs of repairs the district will make before the final sale. The district offers the multi-residential properties and vacant SFRs to public housing entities by the request for proposal (RFP) process, which gives the entities the opportunity to bid on the properties.

Table 3 on page 19 summarizes the status of the 56 excess parcels that contain dwelling units and the 6 vacant parcels. The table distinguishes between the sales status of the historic and the nonhistoric parcels.

Table 3

***Sales Status of Excess Parcels
October 1996***

	SFR		Multi-Residential	Vacant Land	Total
	Historic	Nonhistoric			
Income verification	1	2			3
Offer letter	5	8			13
Escrow	5	11			16
Current RFP	2	9			11
Future RFP	1	3	3 ^a		7
Deferred ^b	3	1			4
Other ^c			2		2
Vacant land				6	6
Total	17	34	5	6	62

^a Includes a historic property on a parcel with a nonhistoric duplex.

^b Due to the tenants' employment status, the district is deferring income verification for a year.

^c The City of South Pasadena is in the process of purchasing these multiple-unit properties.

Conclusion

The district allowed its properties along the corridor of the proposed extension to State Route 710 to deteriorate. The district's limited funds and longer-than-anticipated management contributed to the cause of the poor condition of these properties. Their deteriorated condition caused many of the properties to remain unoccupied for a long time. Over two fiscal years beginning in 1994-95, the district received special allocations of capital outlay funds totaling approximately \$5.9 million to repair and rehabilitate some of its historic and nonhistoric properties.

However, the district did not have reliable estimates of the costs associated with fully rehabilitating historic properties when it made a commitment to the community to perform such repairs. In spite of significantly higher costs than anticipated, the district plans to honor its commitment by fully rehabilitating four historic properties. For the remaining historic properties, the district plans to postpone full rehabilitation until construction on the extension project is complete. The district currently plans to request \$16 million in funds to make necessary health and safety repairs which will also help preserve these properties. However, the department is justifying the district's rehabilitation

efforts on the four historic properties by the department's interpretation of the law requiring the preservation and maintenance of historical resources.

In our view, the department has some flexibility in how far it needs to go in preserving and maintaining historic properties and is not required to fully rehabilitate each property. We question the prudence of the district spending such large amounts of state funds to repair and rehabilitate property that it will ultimately raze or sell, in some cases, below fair market value.

The district is currently preparing to sell 62 parcels that it no longer needs for the proposed extension project. It will sell many of these excess parcels at less than fair market value to tenants who meet the low- to moderate-income requirements in accordance with provisions of the Government Code governing the sale of excess property. The Government Code also requires the district to make certain repairs on these homes to eliminate conditions that are potentially hazardous.

Recommendations

The district should continue its effort to complete the repair work on properties along the extension project right-of-way.

The department should reassess its interpretation of the law requiring the district to preserve and maintain historical resources and also reassess the level of repair work it plans to perform on its historic properties.

The department should work with the Legislature to clarify the Legislature's position on the historic properties. Specifically, the department should propose legislation to change the law governing the department's sale of excess right-of-way property to exempt all residential historic properties from the law's provisions.

Chapter 2

The District Needs To Improve Its Procedures for Managing Rental Properties


Chapter Summary

In response to reports issued by the California Department of Transportation's (department) internal auditors, its Property Management Task Force, and public complaints, District 7 (district) has taken steps to improve its procedures for managing properties under its jurisdiction. In July 1995, the department's internal auditors reported that the district did not sufficiently monitor maintenance contractors, train district staff in contract management procedures, or adequately market for rental its unoccupied properties. During the same period, the department's Property Management Task Force reported similar deficiencies. The department issued the audit and task force reports just months after public complaints had heightened about the poor condition of the properties along the proposed State Route 710 extension project (extension project).


In an effort to improve the management of its properties, the district reorganized its property management unit, revised policies and procedures manuals, and provided training to its right-of-way staff. The district began implementing the changes in July 1995. Although it is too early to assess the overall impact of these changes, we did note an improvement in the district's occupancy rate during fiscal year 1995-96. Nonetheless, the district needs to improve its practices in other areas of property management. Specifically, the district needs to improve its practices for dealing with rental offsets, comply with its own procedures when handling tenants who are delinquent in paying their monthly rent, and collect market-rate rents for its properties unless it justifies a lower rent.

The District Has Recently Taken Steps To Manage Its Properties More Effectively

During September 1994 through February 1995, the department's auditors conducted a statewide audit of districts' management of right-of-way properties. The internal auditors issued a report in July 1995 that identified various deficiencies



A department task force and its internal auditors found various deficiencies in the right-of-way property management program.



in the right-of-way property management program. Some of the deficiencies included a lack of effective contract administration, inadequate and inconsistent rental agreements, inconsistent use of rental offsets, and insufficient marketing of properties that were unoccupied.

Before issuing the audit report, the department assembled a Property Management Task Force in April 1995 that consisted of managers from the district right-of-way offices and headquarters. This task force, which reviewed the department's property management activities and also issued its report in July 1995, found deficiencies similar to those identified by the department's internal auditors. The Property Management Task Force also found insufficient monitoring of maintenance contractors and a lack of training for district staff in contract management procedures.


For District 7, the department began responding to the findings of its task force and internal auditors in July 1995 by restructuring the district's property management unit and implementing specific procedures directed at improving service to tenants, streamlining the department's contracting process, and improving the preparation of the district's maintenance budget. The district also began providing to its property managers training on the maintenance contracting process.

As one of the first steps in restructuring, the department also assigned a senior agent to supervise the management of the properties along the proposed extension project route. To assess and improve district practices, the newly assigned senior agent assembled a district task force consisting of the senior agent and three associate right-of-way agents. The district task force evaluated the district's current property management practices and then implemented an action plan directed at enhancing service to tenants. Specifically, the district task force developed a manual that provides detailed descriptions of the duties to be performed by each member of the property management staff. These duties include maintaining good tenant relations, following up on work performed by contractors, and providing accurate and timely reporting of property management activities.


The department also organized the Right-of-Way Contracts Quality Team (quality team), which consists of managers from the Right-of-Way Property Management, Service Contracts, Accounting, and Legal divisions. The quality team made recommendations designed to streamline the department's contracting process and thus provide a rapid turnaround of tenant requests.

In responding to the quality team's recommendations, the department implemented several changes to its practices. For instance, it revised the form used to request a contract for maintenance on the properties. The revised request form should reduce the amount of time it takes the district to respond to a tenant's request. The department also introduced a new planning tool, the Property Maintenance Plan, to be prepared annually by district property managers. Completed Property Maintenance Plans should provide comprehensive information that will facilitate preparation of the maintenance budget and planning for contract needs. Finally, the department held a training seminar for its property managers on executing and administering property maintenance contracts. Specifically, the department instructed managers to use precise contract language when describing repair work to be performed and when estimating the costs of such repairs. Precise contract language will enable the district to expedite matching of maintenance needs with the specialties of existing contractors and determine whether contractor invoices are accurate.

The department also revised its Right-of-Way Procedures Manual (RWPM). One change involved adding specific language requiring routine inspections of properties undergoing maintenance work. Other additions to the RWPM include requirements for district right-of-way offices to design marketing plans to increase the districts' occupancy rates, procedures for the districts' handling of delinquent rental accounts, and additional guidance pertaining to rental offsets. Also, rather than completely revise procedures in certain areas, the department instead emphasizes that staff should follow current procedures.



Improved occupancy rates will increase revenue to the State and help eliminate the blight caused in the past by vacant properties.



Because the district began implementing the changes to improve its property management activities in July 1995, we could not yet determine the overall impact of these changes. Although we noted a rise in the district's occupancy rate during fiscal year 1995-96, we could not be certain that this increase resulted from any of the recent procedural changes discussed above. Specifically, the district reported an occupancy rate of 88 percent in October 1995 for rentable properties along the extension project right-of-way, and we calculated a rate of 94 percent for the same rentable properties as of May 31, 1996. The improved occupancy rate will provide additional rent revenue to the State and also help eliminate the blight caused in the past by vacant properties.



***The District Needs To Improve
Its Handling of Rental Offsets
and Delinquent Tenants***

Although the department's policies and procedures appear adequate for handling rental offsets and tenants who do not pay their rent on time, the district has not consistently complied with those procedures. Specifically, the district has permitted tenants to use rental offsets without prior approval. Furthermore, the district has allowed tenants to hire contractors that it had not approved to perform costly repair work. The rental offset policy allows tenants to perform limited repair work on property occupied by the tenant at the tenant's initial expense, as long as the district property management chief authorizes such work. The department then credits the tenant's account for the cost of the repairs. Repair work performed using rental offsets for all of the district's properties totaled \$216,664 in fiscal year 1994-95, but declined to \$104,181 in fiscal year 1995-96, a reduction of more than 50 percent. Table 4 below shows the tenants' use of rental offsets for repair work for the past four fiscal years.

Table 4
Rental Offsets

Fiscal Year	Rental Offset Amount
1992-93	\$113,979
1993-94	142,552
1994-95	216,664
1995-96	104,181

We reviewed six instances in which tenants arranged to have repairs performed on their properties during fiscal years 1993-94 and 1994-95 and for which the district credited the tenants' rental accounts for the costs of the repairs in fiscal years 1994-95 and 1995-96. In all six cases, contractors performed the repairs before the district's property management chief had authorized the work. However, the department's policy states that prior to the commencement of any repairs the district's rental agent shall inspect the property, complete a cost estimate of the needed repairs, and submit a specific form (signed by the tenant) to the property management chief or designee (not the rental agent) for approval. In three of the six cases, the tenants


By allowing tenants to hire outside, unapproved contractors for costly repair work and by not following rules for handling delinquent rents, the district may be losing revenue.


hired outside contractors to perform repairs instead of using contractors approved by the department. For example, one tenant paid outside contractors more than \$11,000 to install a new lawn and irrigation system. The department reimbursed the tenant by crediting the rental account.

When tenants are allowed to hire outside, unapproved contractors to perform costly repairs, the district cannot ensure that the amount paid for the repairs is reasonable. Furthermore, by allowing tenants to use the rental offset procedure to hire outside contractors to perform repair work, the district is circumventing the State's process for awarding contract work through a competitive process.

In addition, the district has not complied with its procedures for handling delinquent tenants and thus may be losing state revenue. A tenant is delinquent if the department has not received a rent payment by the tenth day of the month in which the rent is due. If the department has not received a rent payment as of the tenth day of the second month of delinquency, the district's procedure is to issue a three-day notice to the tenant to pay rent or quit. Moreover, the district may initiate eviction action when a tenant is delinquent for three consecutive months (even though rent is eventually paid each month). In our review of five tenants who appeared on the fiscal year 1995-96 delinquent tenant list, we noted that four tenants had not paid rent by the tenth day of the second month 26 times and the district served the required three-day notices only 3 times. In fact, for the remaining 23 instances, the district did not even send warning letters in 18 instances. At the end of each fiscal year we reviewed, all five of the tenants still had an outstanding delinquent balance.

When the district does not follow its own policies and procedures for handling delinquent tenants, it increases the risk that delinquent accounts will become uncollectible and result in lost revenue to the State. For example, the district waited eight months to issue a three-day notice to a tenant who was consistently delinquent. The three-day notice, which the department issued on March 13, 1995, required the tenant to pay the entire outstanding balance of \$2,960 by March 16, 1995, or the district would take legal action against the tenant. However, the tenant did not pay the balance as required, and the district failed to enforce the eviction action that it had filed with the district's legal department. As a result, the tenant still occupied the property as of July 1996, while the tenant's outstanding balance had grown to \$5,500.

The District Is Not Consistently Charging Market Rents

The department is losing rental revenue because the district does not charge market-rate rents to some tenants who occupy properties along the corridor of the proposed extension project. The district's rental revenue collection over the past five fiscal years for all of its properties has averaged approximately \$5.4 million per year. However, our review of a sample of the files of 14 tenants who rent properties in the extension project right-of-way showed that the department should be collecting more rent for its properties.

For 4 of the 14 rental accounts reviewed, the district could not support charging less than market rate for rents.

According to our review of 14 rental accounts, the district charged rents at less than the market rate for 13 tenant accounts. However, for 4 of those tenants, the district was unable to provide documentation to support its decisions to charge the lower rates. For example, the district charged one tenant just \$1,600 per month for a property with a market rate of \$1,950 per month. The district files did not contain any justification for the \$350 lower rate. For another property, the district charged a tenant \$1,800 for rent when the market rate was \$2,100. Again, the district files did not contain justification for the \$300 difference. Instances exist in which the district may be justified in charging a rent that is lower than market rate. For example, if a tenant is in the low-income bracket or if the property is not in premium condition and necessary repairs have been deferred, the district may be justified in charging a lower rental rate. However, because we found no documentation and the district could not support the lower rates, we were unable to determine whether these rental rates were appropriate.

The department's policy for setting rental rates states that districts shall charge the current market rates. Whenever it updates market data on its rental properties, each district is supposed to adjust monthly rents accordingly. Further, when districts charge rental rates that do not match market rates, the districts should document the reasons. However, the district's rental agents charged some tenants less than the market rate without documenting its reasons. It is in the State's best interest for the district to collect market-rate rents from all of its tenants unless special circumstances justify a deviation.

Conclusion

Internal auditors and various task forces identified problems in the department's property management branch that both the department and the district have taken steps to resolve. As part of its corrective action, the department restructured the property management unit and assigned a senior agent to oversee the entire management of properties in the extension project right-of-way. The department also modified its policies and procedures manual and implemented specific procedures to improve the service the district provides its tenants, streamline the contracting process, and expedite the budget preparation process.

Despite these efforts, however, the district needs to improve other property management activities. Specifically, we found that the district does not always control the tenants' use of rental offsets nor does it comply with its policies and procedures for handling delinquent tenants. In addition, we found that the district is not collecting the rental revenues it should, and it does not always document the reason it charges tenants rental rates that are lower than market rates.

Recommendations

The department should continue its efforts to improve its property management services by ensuring that the district is fully and effectively implementing all of its policies and procedures.

The district should comply with the department's policies and procedures for the use of rental offsets. Specifically, the district should ensure that tenants receive prior authorization for all repair work performed. Furthermore, the district should not allow tenants to hire outside contractors that are not approved by the State to perform reimbursable repair work on State-owned properties.

In addition, when handling tenants with delinquent accounts the district should follow its own policies and procedures.

Finally, the district should charge the market-rate rents for its properties unless it documents that a lower rate is justified.

We conducted this review under the authority vested in the state auditor by Section 8543 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope of this report.

Respectfully submitted,

A handwritten signature in black ink, reading "Kurt Sjoberg". The signature is fluid and cursive, with the first name "Kurt" and last name "Sjoberg" clearly distinguishable.

KURT R. SJOBERG
State Auditor

Date: November 13, 1996

Staff: Steven M. Hendrickson, Audit Principal
Debbie J. Meador, CPA
Carey Gilmour
Ken Willis
Angela Yoshida

Appendix A

A History of the Proposed State Route 710 Extension Project

As discussed in the introduction to this report, the proposed State Route 710 extension project (extension project) has been subjected to several environmental studies which suggested several alternatives to the original proposed route. Of all the alternatives studied for the environmental reports, these three route alignments received the greatest scrutiny: the ①Meridian Route, the ②Westerly Route, and the ③Meridian Variation. The ③Meridian Variation is the current proposed route for the extension project. Refer to the map in Appendix B for route locations.

The following is a chronology of the major events affecting the proposed extension project. Many of these events contributed to the more-than-40-year delay the California Department of Transportation (department) has had closing the gap in the freeway that exists between State Route 10 in Los Angeles and State Route 210 in Pasadena.

<u>Date/Time Period</u>	<u>Event</u>
1951	State Route 167 (now called State Route 710) was designated, through legislation, as a route from the city of Long Beach to Huntington Drive in Los Angeles. The department subsequently completed a major portion of State Route 710 from the city of Long Beach to State Route 10 in Los Angeles; however, a gap in the route still exists from just north of State Route 10 in Los Angeles to State Route 210 in Pasadena.
July 24, 1953	The California Highway Commission (CHC), predecessor to the California Transportation Commission (CTC), adopted the location designated in 1951 for Route 7 (now called State Route 710). This adoption allowed the department to exercise Eminent Domain and acquire necessary right-of-way properties along the route.
1954	The department began acquiring some of the necessary right-of-way properties along the designated route in preparation for construction of the extension project.

Date/Time Period	Event
November 18, 1964	The CHC adopted the ①Meridian Route as the preferred alignment for the extension project.
1970	The National Environmental Policy Act (NEPA) and the California Environmental Quality Act (CEQA) became law and required environmental impact studies for proposed highway construction projects. However, the laws did not specify that such studies were required for projects already in progress. Up to this point, the department was not required to complete an Environmental Impact Statement for the ①Meridian Route.
February 7, 1973	The City of South Pasadena and others prevailed in a federal civil suit that compelled the department to conduct environmental impact studies and to comply with NEPA and CEQA before construction could begin on the extension project.
1975	The City of South Pasadena requested consideration of the ②Westerly Route alternative, a route that went around rather than through the city. The ②Westerly Route was found to be unfeasible.
1973 through 1984	The department prepared several environmental impact documents and reports in an effort to comply with NEPA and CEQA. The State Historic Preservation Officer (SHPO) and the Advisory Council on Historic Preservation (ACHP) became involved in the legal battle in part because the City of South Pasadena contended that several historic districts were located along the ①Meridian Route. The ACHP submitted a proposal to the department outlining several alternatives to the ①Meridian Route and ②Westerly Route for the department to study.
September 14, 1984	The department distributed a conceptual study of the ACHP-recommended alternatives, each of which was determined to have significant shortcomings that outweighed potential benefits.
December 6, 1984	The ACHP responded to the department's conceptual study and recommended a "no-build" option if no other feasible alternative to the ①Meridian Route and ②Westerly Route was found.

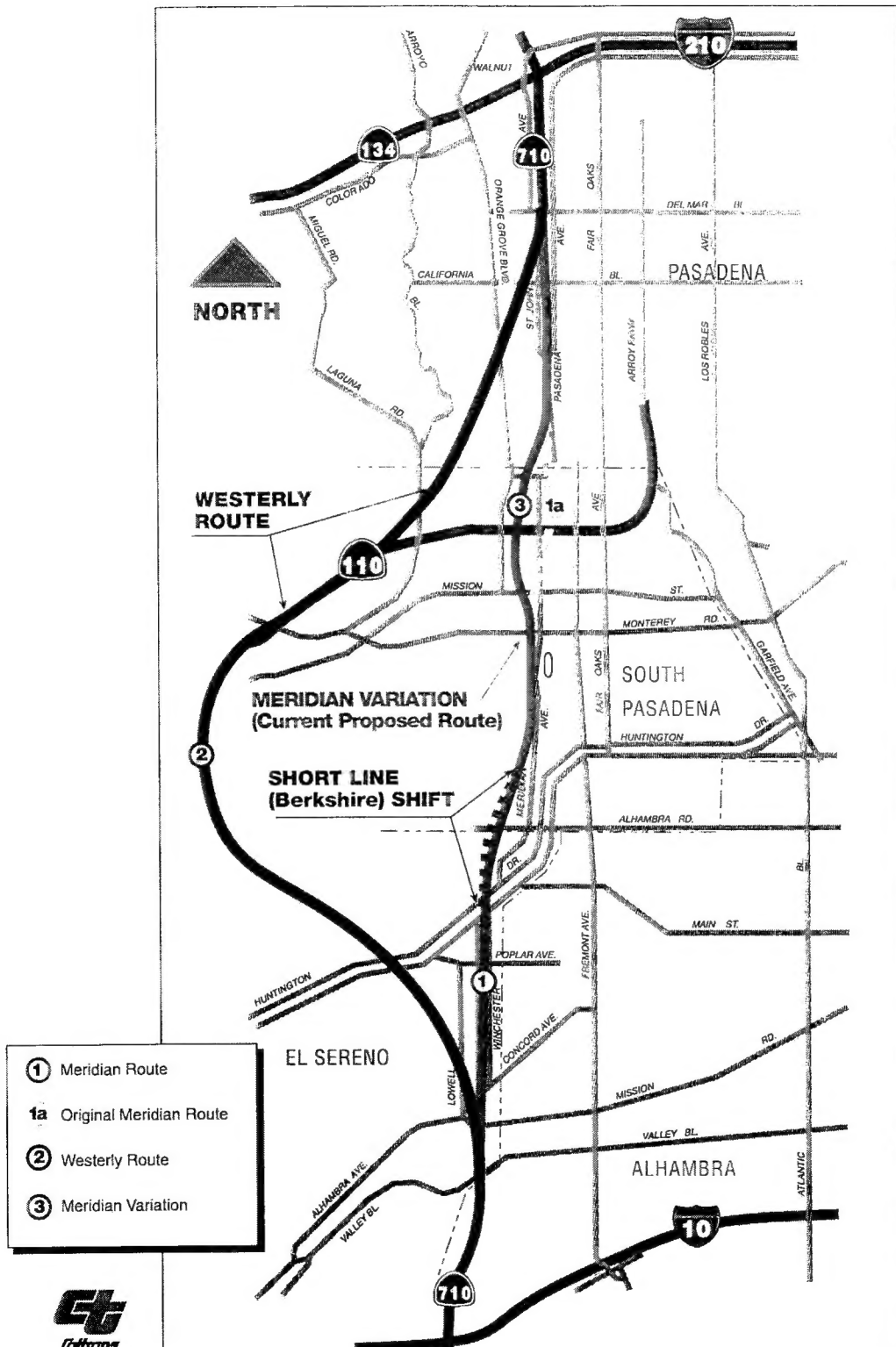
Date/Time Period	Event
December 30, 1986	A third Draft Environmental Impact Statement was circulated for review and comment. The document focused on the ③Meridian Variation alternative, developed by the department as an alternative to avoid historic properties.
1986 through 1990	The department, the Federal Highway Administration (FHWA), and the CTC continued to meet resistance from the City of South Pasadena as well as from the ACHP and the SHPO. The primary source of conflict was the classification of historic properties and the department's efforts (or lack thereof) to avoid those properties. The ACHP, the SHPO, and the City of South Pasadena have focused their efforts on approval of a "low-build" alternative (referred to as the "Raymond-Arroyo Couplet" by the department) for the extension project that would include alternate transportation methods and mitigating devices such as Traffic Management Systems, converting two-directional streets to one-way streets, extending the freeway further north to Mission Street, and eliminating on-street parking.
March 2, 1992	The FHWA provisionally approved the 1992 Final Environmental Impact Statement as adequate in describing the effects the extension project would have on the environment and selected the ③Meridian Variation as the preferred alignment. The FHWA directed the department to form a Mitigation and Enhancement Advisory Committee (advisory committee) to further reduce project impacts before proceeding with federal approval. The advisory committee included representatives from the department; the FHWA; the Southern California Association of Governments; the Los Angeles County Metropolitan Transportation Authority; the National Trust; the Sierra Club; the Los Angeles Conservancy; and the cities of Pasadena, South Pasadena, Los Angeles (El Sereno), and Alhambra.
December 14, 1992	The department asked the FHWA to sign the Record of Decision on the extension project. The Record of Decision completes the NEPA process and is the document that the FHWA uses to notify the department that a proposed project has federal approval and support.

January 15, 1993	The ACHP referred the proposed extension project to the President's Council on Environmental Quality (CEQ), stating that earlier historic property surveys were incomplete and outdated and that no attempt had been made to address a "low-build" alternative. The FHWA subsequently responded to the referral, essentially disagreeing with the ACHP's opinion.
January 26, 1993	The FHWA declined to sign the Record of Decision until the advisory committee completed its work and the CEQ referral was addressed.
1994	A draft Third Supplemental Historic Architectural Survey Report was released. The report identified the properties with historic significance along the ③Meridian Variation. The department subsequently requested that the FHWA forward the report to the SHPO for a determination of eligibility of additional professed historic properties. The department and the SHPO did not reach an agreement and the SHPO advised the FHWA to submit the draft Third Supplemental Historic Architectural Survey Report to the "Keeper" of the National Register of Historic Properties for a federal determination of eligibility (for inclusion in the National Register) for these properties.
September 14, 1994	The CTC voted to approve the extension project. This action rescinded the ①Meridian Route as the adopted route and substituted the ③Meridian Variation alternative. Shortly thereafter, Assembly Bill 2556 was enacted which relieved the department, under certain conditions, of having to acquire freeway agreements with local governments when local streets need to be closed for freeway construction. A freeway agreement between the department and local governments gives the department permission to proceed with construction.
January 10, 1995	The Major Investment Review Committee that included representatives from the Southern California Association of Governments, the Federal Transit Authority, the FHWA, and the Los Angeles County Metropolitan Transportation Authority met and determined that the extension project has fulfilled the Major Investment Study requirement of the Intermodal Surface Transportation and Efficiency Act of 1991.

Date/Time Period	Event
March 25, 1995	Three community activist groups from El Sereno in the City of Los Angeles filed an environmental justice complaint with the United States Department of Transportation. The basis of the complaint was that the community of El Sereno, which has a predominantly hispanic population, did not get equal treatment regarding project mitigation when compared to the cities of South Pasadena and Pasadena, which have predominantly caucasian populations. Historic properties were among the specific areas for which the groups claimed unequal mitigation. The department refuted each issue in the complaint in a July 14, 1995, letter to an interested member of the United States Congress.
September 13, 1995	Activist groups from El Sereno filed suit against the CTC and the department claiming "Environmental Racism."
November 20, 1995	The Keeper of the National Register signed the determination of eligibility designating properties in the Short Line Villa Tract in the community of El Sereno as historic. As a result, to avoid including these historic properties in the right-of-way for the extension project, the department made a minor shift in the alignment of the proposed route. See the Short Line Villa (Berkshire) Shift on the map in Appendix B.
April 19, 1996	FHWA Region 9 recommended federal approval of the extension project and submitted a memorandum to the FHWA administrator requesting completion of the Record of Decision.
September 1996	<p>The City of Alhambra filed a complaint for Mandamus against the FHWA and others seeking to compel the FHWA to issue the Record of Decision for the completion of the extension project. The completed extension project will relieve the congestion and related environmental hazards that are now present in Alhambra.</p> <p>The City of Alhambra also filed a complaint for Declaratory and Injunctive relief against the FHWA and the department for their failure to comply with NEPA and its implementing regulations. This action also challenges the federal government to approve the extension project.</p>
October 1996	The FHWA had not yet completed the Record of Decision on the extension project.

Appendix B

Routes Studied by the Department for the Proposed Extension Project



STATE OF CALIFORNIA

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BUSINESS, TRANSPORTATION AND HOUSING AGENCY

DEAN R. DUNPHY
Secretary

November 6, 1996

Mr. Kurt R. Sjoberg
State Auditor
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

In reference to your report entitled "Department of Transportation: Further Improvements Can Be Made in the Management of Properties Along State Route 710 Right of Way", I have the following comments.

Although I agree with your statement that the department has latitude in its interpretation of laws related to maintenance and rehabilitation of historic properties, the circumstances regarding the Route 710 project preclude the department from exercising such latitude if it is to ensure federal participation in the project. In my opinion, the department's interpretation best serves the public's interests by ensuring maximum federal participation in a multi-million dollar project. I concur with the recommendations included in your report, with the exception of this one point. *

As noted in your report, the department has made recent improvements to rental property management procedures along Route 710. I concur with your recommendations that the district's effectiveness would benefit from further improvement in this area.

I appreciate the opportunity to respond to your reports.

Sincerely,

A handwritten signature in cursive script that reads "Dean Dunphy".

DEAN DUNPHY
Secretary

*The California State Auditor's comments on this response are on page 39.

Comments

California State Auditor's Comment on the Response From the Business, Transportation and Housing Agency

To provide clarity and perspective, we are commenting on the Business, Transportation and Housing Agency's response to our audit report.

After numerous attempts, the Department of Transportation (department) could not provide us with any specific details on how federal participation in the proposed extension project would be jeopardized if the department did not spend significant amounts of state funds to fully rehabilitate its historic properties along the right-of-way.

cc: Members of the Legislature
Office of the Lieutenant Governor
Attorney General
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps